Reviewed and Approved by the Interim Executive Director: dw
May 14, 2020

FOR INFORMATION

I. SUBJECT

Information on the Status of the Restructuring and Preservation of the Kamakee Vista Mixed-Use Affordable Housing Project, Located in Kewalo, Oahu, TMK No.: (1) 2-3-003: 018

II. FACTS

Project:	Kamakee Vista
Addresses:	1045 Kawaiahao Street, 1065 Kawaiahao Street, and 1050 Queen Street, Honolulu, HI 96814
Tax Map Key No.:	(1) 2-3-003: 018
Land Area:	1.2997 acres
Project Type:	Mixed-use project including affordable multifamily rental housing
Fee Owner:	Hawaii Housing Finance and Development Corporation (HHFDC)
Ground Lessees:	
Residential Apartment:	None
Commercial Apartment:	HHFDC (with various subtenants, including Impact Hub Honolulu LLC and The Skin Institute Internationale LLC)
Daycare Apartment:	KCAA Preschools of Hawaii (KCAA)

A. On July 10, 2017, HHFDC published Request for Proposals No. 17-010-PPMS Affordable Rental Housing Portfolio Restructuring and Preservation (the RFP) to select a qualified owner-operator of affordable rental housing to purchase long-term leasehold interests in its Hawaii Rental Housing System Revenue Bond Fund portfolio of six affordable multifamily rental properties (the Portfolio), which included its existing interests in the Kamakee Vista Residential and Commercial Apartments (HHFDC Kamakee Vista) located on land then owned by Atherton Family Foundation (Atherton). A detailed Offering Memorandum prepared by HHFDC's consultant CBRE, Inc. (CBRE) was included as an exhibit to the RFP.

1. Completed in 1992 by a partnership between a predecessor to HHFDC and the Hawaii Community Development Authority (HCDA), the Project is a 28-story, mixed-use development located on an approximately 1.3-acre site in the Kakaako district of Honolulu and across from the Queen Street Whole Foods Market. The project is composed of the following three condominium units:

   a. The Residential Apartment with 226 one- and two-bedroom affordable housing units;

   b. The Commercial Apartment with approximately 29,600 square feet of usable space; and

   c. The Daycare Apartment which is home to the KCAA Muriel Preschool serving over 110 children.

The Residential and Commercial Apartments share approximately 270 structured parking stalls, while the Daycare Apartment has separate ground-level parking.

B. At the time of RFP publication, Atherton owned the leased-fee interest in the Project, with HHFDC's ground leases for the Residential and Commercial Apartments expiring on December 31, 2053. While the five Portfolio properties located on HHFDC-owned land were offered with 75-year ground leases from HHFDC, the RFP explicitly stated that HHFDC Kamakee Vista would be conveyed subject to the existing ground leases with Atherton.

C. Over 100 individuals attended property tours led by CBRE during August 2017, and HHFDC received 19 proposals by the September 15, 2017 deadline to respond to the RFP.

   1. HHFDC entered into discussions with six offerors (the Priority-Listed Offerors), each of which submitted Best-and-Final Offers (BAFOs) by an October 25, 2017 deadline.

   2. Three Priority-Listed Offerors submitted Revised BAFOs by a November 16, 2017 deadline.[1]

D. At its December 14, 2017 meeting, the HHFDC Board of Directors (the Board) approved the RFP award to joint offerors Standard Property Company, Inc. and Stanford Carr Development, LLC (collectively the Buyer). The Buyer's proposal provided for the purchase of the Portfolio leasehold interests for $170 million in cash and a preliminary capital improvement plan that contemplated the completion of renovations during the first three years of ownership at an estimated cost of $53.9 million.

E. On June 13, 2018, HHFDC and Komohale LP (Komohale, an entity formed by the Buyer to execute the Portfolio transaction) entered into a Purchase and Sale Agreement (PSA) and Joint Escrow Instructions.

F. At its December 13, 2018 meeting, the Board approved various modifications to the RFP award primarily based on Komohale's due diligence findings. The modifications included a purchase price reduction to $130 million and a capital improvement plan budget increase to $85.1 million. The December 13, 2018 For Action item is attached as **Exhibit A**.

G. On May 17, 2019, HHFDC and various special-purpose entities formed by Komohale closed on the sale of the Portfolio properties excluding HHFDC Kamakee Vista. The sales price was $100.5 million, with the remaining $29.5 million allocated to HHFDC Kamakee Vista. The HHFDC Kamakee Vista closing was delayed due to ongoing discussions Atherton regarding:

   1. Komohale's requested certifications from Atherton and modifications to the HHFDC Kamakee Vista ground leases, primarily due to Komohale's senior lender's requirements; and

   2. The possible purchase by HHFDC of Atherton's leased-fee interest in the Project, which was initially discussed by the parties in July 2017.

[1] One offeror was removed from the list of Priority-Listed Offerors based on an advisory opinion issued by the Hawaii State Ethics Commission. Two Priority-Listed Offerors provided late submissions, and therefore their BAFOs submitted on October 25, 2017 were construed to be their respective Revised BAFOs.

H. During May 2019, Atherton communicated to HHFDC that it would not agree to the Komohale's requested ground-lease modifications and would not provide any comments on the same. Instead, Atherton was interested to sell its leased-fee interest in the Project to HHFDC.

I. At its June 13, 2019 meeting, the Board approved the following actions relating to the possible purchase of Atherton's fee-simple interest in the Project:

1. The establishment of a Dwelling Unit Revolving Fund (DURF) budget in the amount of $17.56 million;

2. The execution of a non-binding Letter of Intent with Atherton; and

3. The execution of a Purchase and Sale Agreement with Atherton (the Kamakee Vista PSA).

J. On October 11, 2019, HHFDC and Atherton executed the Kamakee Vista PSA. HHFDC conducted appropriate due diligence on Atherton's leased-fee interest in the Project and closed on the acquisition on December 12, 2019. The purchase price of $17.56 million was funded by DURF from the proceeds of the May 17, 2019 leasehold sale of the five other Portfolio properties.

1. It is noted that the fee-simple and leased-fee interests in the Commercial Apartment did not merge as a result of the sale and remains in place; the fee-simple and leased-fee interests in the Residential Apartment were permitted to merge.

2. Atherton and KCAA have a long-term relationship of over 100 years, and a condition to the sale was that HHFDC extend KCAA's Daycare Apartment lease term by 30 years to December 31, 2051.

III. DISCUSSION

A. HHFDC's acquisition of the leased-fee interest in the Project allows it to accommodate Komohale's previously requested modifications to the Residential and Commercial Apartment ground leases and proceed with a closing of the HHFDC Kamakee Vista sale as contemplated by the RFP and pursuant to the PSA. However, Komohale has been unwilling to proceed with the closing and requested that HHFDC instead modify the transaction so that the Residential and Commercial Apartment ground leases have terms of 75 years rather than the approximately 37-year remaining term of the existing leases.

B. Notwithstanding the terms of the RFP and PSA, staff was willing to consider Komohale's request subject to an increased purchase price and Board approval. HHFDC procured an appraisal report from Hastings, Conboy & Associates, Ltd. dated September 27, 2019 which indicated the incremental purchase price for the contemplated extended lease term. Komohale did not agree with the appraisal report conclusion and stated that it had engaged The Benavente Group to obtain its own appraisal report.

C. Nearly a year has passed since the initial Portfolio sale closing. The term of the PSA has been extended five times pending the conclusion of The Benavente Group's appraisal report and a formal request from Komohale to modify the terms of the HHFDC Kamakee Vista transaction. The PSA, which was initially executed on June 13, 2018, is currently set to expire on May 15, 2020.

D. On April 16, 2020, staff and counsel to HHFDC held a conference call with CBRE regarding current affordable-housing investment market conditions and the possibility of a re-marketing of the Kamakee Vista investment opportunity, with the entire Project being offered for sale with a ground lease term of 75 years. It was reported that the market for an asset such as the Project remains strong despite the current COVID-19 pandemic, and that interest rates for mortgage debt are very low. CBRE agreed to prepare a Broker's Opinion of Value for a 75-year leasehold interest in the Project to be delivered on or about May 11, 2020.

E. On April 30, 2020 by email, the HHFDC Real Estate Portfolio Manager requested that, by 4:30 p.m., Hawaii Standard Time, on May 13, the principals of Komohale submit either:

1. A formal written request to modify the terms of the HHFDC Kamakee Vista transaction and a summary of its justification for such a request, including supporting documentation such as an appraisal report. The request should include a complete and detailed list of the specific modifications that Komohale seeks; or

2. Written confirmation that Komohale will proceed with the HHFDC Kamakee Vista transaction on the terms to which it originally agreed.

Attachment: Exhibit A – For Action dated December 13, 2018 (Exhibits A-E not included)

Prepared by: Chris Woodard, Real Estate Portfolio Manager CW

Reviewed by: Janice Takahashi, Chief Planner

Reviewed and Approved by the Executive Director: *[signature]*
December 13, 2018

FOR ACTION[1]

I. REQUEST

Approve Modifications to Award of Request for Proposals No. 17-010-PPMS Affordable Rental Housing Portfolio Restructuring and Preservation to Joint Offerors Standard Property Company, Inc. and Stanford Carr Development, LLC as Successful Offeror

II. FACTS

A. On July 10, 2017, HHFDC published Request for Proposals No. 17-010-PPMS Affordable Rental Housing Portfolio Restructuring and Preservation (the "RFP") to select a qualified owner-operator of affordable rental housing to purchase long-term leasehold interests in its Hawaii Rental Housing System Revenue Bond Fund portfolio of six affordable multifamily rental properties (the "Portfolio"). A detailed Offering Memorandum prepared by HHFDC's consultant CBRE, Inc. ("CBRE") was included as an exhibit to the RFP.

B. Over 100 individuals attended property tours led by CBRE during August 2017, and HHFDC received 19 proposals by the September 15, 2017 deadline to respond to the RFP.

1. HHFDC entered into discussions with six offerors (the "Priority-Listed Offerors"), each of which submitted Best-and-Final Offers ("BAFOs") by an October 25, 2017 deadline.

2. Three Priority-Listed Offerors submitted Revised BAFOs by a November 16, 2017 deadline.[2]

C. On December 14, 2017, the HHFDC Board of Directors (the "Board") approved the RFP award to joint offerors Standard Property Company, Inc. and Stanford Carr Development, LLC (collectively the "Buyer").

1. The Buyer's proposal provided for the purchase of the Portfolio leasehold interests for $170 million in cash and a preliminary capital improvement plan (the "Preliminary CIP") that contemplated the completion of renovations during the first three years of ownership at an estimated cost of $53.9 million.

2. In accordance with the terms of the RFP, the Buyer also agreed to the following rent-increase restrictions for tenants living at the Portfolio properties on the closing date (the "Protected Tenants"):

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[1] This document serves to amend staff's submission relating to agenda item III.D titled "Discussion on Requested Modifications to Award of Request for Proposals No. 17-010-PPMS Affordable Rental Housing Portfolio Restructuring and Preservation to Joint Offerors Standard Property Company, Inc. and Stanford Carr Development, LLC as Successful Offeror".

[2] One offeror was removed from the list of Priority-Listed Offerors based on an advisory opinion issued by the Hawaii State Ethics Commission. Two Priority-Listed Offerors provided late submissions, and therefore their BAFOs submitted on October 25, 2017 were construed to be their respective Revised BAFOs.

EXHIBIT A

a. At Pohulani Elderly, the Buyer may not increase contract rents by more than two percent (2%) on each July 1 for the duration of the Protected Tenants' residencies at the properties.

b. At the five (5) family properties, the Buyer may not increase Protected Tenants' contract rents by more than two percent (2%) on each July 1 through the date that is five (5) years from the transaction closing date (the "Rent Protection Expiration Date"). For Protected Tenants in good standing and with valid rental agreements as of the Rent Protection Expiration Date, subsequent to that date, the Buyer may not increase contract rents by more than five percent (5%) on each July 1 through the date that is thirty (30) years from the Rent Protection Expiration Date.

3. In accordance with the terms of the RFP, the Buyer also agreed to provide education and counseling services to enrich the lives of residents and their families. The proposed services focus on the areas of education, financial literacy, and health.

D. At its December 14, 2017 meeting, the Board also approved an award of Rental Assistance Program ("RAP") contracts to the Buyer with an estimated combined maximum commitment of $23.3 million.[3] The RFP had provided for award of RAP contracts to help to further minimize displacement of Protected Tenants that currently receive rental assistance under the program.

E. Additional information on the Portfolio; the RFP process; and the Buyer and its proposal can be found in the December 14, 2017 For Action item attached as **Exhibit A.**

F. A Due Diligence and Confidentiality Agreement relating to the Portfolio transaction was executed on February 9, 2018 to allow the Buyer to conduct preliminary due diligence in advance of signing the Purchase and Sale Agreement (the "PSA"), which was under negotiation at the time.

G. The PSA was executed on June 13, 2018, upon which day the Buyer's formal 60-day due diligence period commenced.

H. Prior to the PSA being amended pursuant to the Board actions discussed below, the due diligence period was to end on August 13, 2018 at 4:30 p.m. Hawaii Standard Time.

III. DISCUSSION

A. Pursuant to the terms of the PSA, on July 20, 2018, the Buyer submitted to HHFDC its draft capital improvement plan (the "Draft CIP") which serves to update the Preliminary CIP based on its due diligence findings. The Draft CIP expands the scope of improvements and repairs to be made by the Buyer within the first three years of its ownership, and the corresponding budget is materially in excess of the Preliminary CIP budget of $53.9 million.

B. At its August 9, 2018 regular meeting, August 15, 2018 special meeting, September 13, 2018 regular meeting, September 26, 2018 special meeting, October 11, 2018

[3] This amount has since been revised to $24.25 million based on a June 2018 analysis of recent rental assistance payments made to the Portfolio properties.

regular meeting, and November 8, 2018 regular meeting, the Board discussed a request from the Buyer to modify the RFP award.

C. Pursuant to successive actions taken by the Board at five of the aforementioned meetings, the Buyer's due diligence period was extended and is now set to expire on December 17, 2018.

D. By letter dated December 11, 2018, the Buyer submitted a revised written RFP award modification request to HHFDC based on negotiations that have transpired since August 2018. The letter provides a high-level summary of the proposed modifications and is attached as **Exhibit B**. The following is an overview of the key components of the request.

1. Capital Improvement Plan

The Buyer engaged Partner Assessment Corporation to prepare Property Condition Assessments in accordance with ASTM E2018-15[4] (the "PCAs"). The Draft CIP[5] was developed based on findings in the PCAs and augmented with information from other consultants engaged by the Buyer. One hundred percent (100%) of the residential and commercial units were inspected in connection with the Buyer's due diligence.

a. The Preliminary CIP contemplated a budget of approximately \$53.9 million based on the RFP disclosures of certain deferred maintenance and an estimate that 70% of the Portfolio's residential units required renovation.[6] Based on its due diligence, the Buyer has determined that the capital improvement plan budget should be increased by approximately \$31.2 million to approximately \$85.1 million, reflecting an increased scope of work as well as increased cost estimates based on discussions with various contractors.

b. Approximately \$5.3 million of the increase is due to a revised estimate to complete the siding-and-stairs replacement project at Honokowai Kauhale. The RFP had relied on a cost estimate of approximately \$3.8 million provided by a consultant retained by the State of Hawaii, Department of Accounting and General Services.

Approximately \$9.1 million of the increase is due to the RFP's underestimate of the number of units that require renovation. The Buyer found that, by property, at most approximately 15% of the units have been renovated and that the renovations were inconsistently executed.

The Buyer has suggested that a full 100% of the Portfolio's units should be renovated in order to:

1) Maximize economies of scale in the purchase of materials;

2) Maximize construction-scheduling efficiencies;

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[4] The current version of the American Society for Testing and Materials Standard Guide for Property Condition Assessments: Baseline Property Condition Assessment Process.

[5] Pursuant to the terms of the PSA, the Draft CIP will become final and integrated into the ground leases and regulatory agreements upon HHFDC's approval.

[6] Through the RFP, HHFDC provided Property Condition Assessment reports prepared by MGA Architecture in 2013 (the "Seller PCAs").

3) Ensure that all residents receive like unit finishes; and

4) Minimize the ongoing replacement reserve budget.

c. The Buyer uncovered major repair and replacement items that were not disclosed in the Seller PCAs. Most notably, approximately $13.6 million is required for window repair/replacement, elevator modernization, and commercial air-conditioning system projects at the three Kakaako high-rise properties.

The Buyer's Preliminary CIP budget, a summary of major variances from the Preliminary CIP budget based on its due diligence (without cost escalation), and a Draft CIP budget summary are presented as **Exhibits C**, **D**, and **E**, respectively.

2. Purchase Price

To maintain the return on investment originally contemplated, the Buyer has requested a purchase price reduction from $170 million to $130 million.

a. Of the requested $40 million purchase price reduction, $31.2 million is attributable to the increase in the capital improvement plan budget.

b. Regarding the remaining $8.8 million of the requested purchase price reduction, the Buyer has offered the following explanation:

1) The cost of debt capital has increased since its initial proposal was submitted to HHFDC in September 2017. The yield on the U.S. 10-year Treasury note has increased by approximately 100 basis points during that period of time.

2) Execution of the capital improvement plan has become more risky given the 58% budget increase, thereby warranting an increased equity return.

3) Through its due diligence, the income profiles of households not participating in the Rental Assistance Program were discovered to be lower than originally assumed, creating additional equity risk.

3. Financing Plan

The Buyer's proposal in response to the RFP stated that the transaction would be financed with 25% equity (of which 55% would be internal and 45% external) and 75% secured debt anticipated to be provided by Citigroup.

a. The Buyer's December 11, 2018 letter to HHFDC requests approval of a modified financing plan. Proposed transaction sources and uses of funds are shown in the following table.

	Uses	Per Unit
Purchase Price	$ 130,000,000	$ 106,470
Acquisition costs	4,052,979	3,319
Commercial tenant improvements	1,130,325	926
Capital improvements	85,094,807	69,693
Financing costs	1,493,380	1,223
Total uses	**$ 221,771,491**	**$ 181,631**

	Sources	Percent of Total
Freddie Mac senior loan	$ 149,338,000	67.3%
Freddie Mac mezzanine loan	15,447,000	7.0%
Seller deferred financing	26,400,000	11.9%
Equity	30,586,491	13.8%
Total sources	**$ 221,771,491**	**100.0%**

b. The proposed modified financing plan is summarized as follows:

1) A **Senior Loan** (secured by first mortgages on the Buyer's leasehold interests in the Portfolio properties) in the amount of approximately $149.4 million would be provided by a Freddie Mac Targeted Affordable Housing Loan originated by Jones Lang LaSalle Multifamily, LLC ("JLL").

- The loan term will be 10 to 15 years.

- The annual interest rate will be no greater than 250 basis points over the U.S. 10-year Treasury Note yield. (At the time of this writing, the all-in interest rate was approximately 5.4%.)

2) A **Mezzanine Loan** (secured by first-priority pledges of 100% of the equity interests in the Senior Loan borrower entities) in the amount of approximately $15.5 million would be provided by a Freddie Mac Targeted Affordable Mezzanine Loan originated by JLL.

- The loan term will be 10 to 15 years (coterminous with the senior loan.)

- The annual interest rate will be no greater than 650 basis points over the 30-day London Inter-bank Offered Rate. (At the time of this writing, the all-in interest rate was approximately 9.8%.)

- The loan is expected to be repaid from the proceeds of either a consolidation into the Senior Loan or a second mortgage loan from Freddie Mac within four to five years of the closing date.

3) **Seller Deferred Financing** (secured by second mortgages on the Buyer's leasehold interests in the Portfolio properties)

EXHIBIT A

of up to $26.4 million, representing a deferral of a portion of the purchase price, would be provided by HHFDC.

- The loan must be subordinate to the Senior and Mezzanine Loans.
- The loan must mature no earlier than six months following the maturity date of the Senior and Mezzanine Loans (i.e., a term of 10.5 to 15.5 years.)
- The loan is expected to be repaid from the proceeds of either a consolidation into the Senior Loan or a second mortgage loan from Freddie Mac within six to seven years of the closing date.

The Buyer's representatives maintain that, constrained by the 2% annual rent-increase restrictions for Protected Tenants during the first five years of ownership, the $31.2 million increase in the capital improvement plan budget is difficult to otherwise finance.

4) **Equity** in the amount of approximately $30.6 million would be provided by persons and entities who are affiliates of the Buyer.

4. Closing Period

The RFP mandated a 30-day closing period following expiration of the due diligence period. Due to the increased complexity of the financing plan, the Buyer has requested that the closing period be extended to 60 days. The Buyer has also noted that the upcoming holidays pose a timing challenge.

Additionally, the Buyer has requested the ability to further extend the closing period subject to the provision of additional deposits above and beyond the $4.25 million deposit required to be funded no later than one business day after the end of the due diligence period.

E. Staff Analysis of the Buyer's RFP Award Modification Request

The Buyer's current RFP award modification request has been negotiated between staff and the Buyer's representatives over the past several months. Staff's recommendation that the Board approve the Buyer's December 11, 2018 request is based on the following analysis and subject to the additional conditions outlined:

1. Capital Improvement Plan

a. Staff notes that the Buyer is an entity composed of:

1) A local developer with a 30-year track record in the construction of both high-rise and garden-style multifamily projects (Stanford Carr Development, LLC); and

2) An owner-operator with a 10-year track record specializing in the acquisition and rehabilitation of affordable housing (Standard Property Group, Inc.)

The aforementioned entities have conducted extensive engineering due diligence utilizing the services of a highly-recognized international consulting firm combined with input and cost estimates from local contractors.

b. Staff concurs with the Buyer's recommendation to renovate 100% of the residential units, since a primary objective of the RFP was the long-term preservation of the Portfolio's physical assets.

c. In summary, staff agrees that the $85.1 million capital improvement plan budget is reasonable, based on the appropriate due diligence, and consistent with a primary goal of the RFP. **The full amount of the capital improvement plan budget would be funded and set aside at the transaction closing.**

- Staff recommends that, in the event that the Buyer realizes cost savings in the execution of its capital improvement plan, the Buyer should be required to reinvest such savings in additional capital improvements to be approved in advance by HHFDC. The Buyer has already identified possible additional capital improvements with an estimated cost of $8.2 million.

2. Purchase Price

a. Staff agrees that the purchase price should be reduced by $31.2 million to account for the increase to the capital improvement plan budget.

b. Regarding the remaining $8.8 million of the requested purchase price reduction, staff agrees that pricing should take into consideration the increase in long-term interest rates, the increased risk relating to execution of the capital improvement plan, and the lower-than-anticipated household incomes of non-RAP tenants.

Staff notes that it is difficult to quantify all three aforementioned factors, and therefore a price reduction in the full amount of the Buyer's requested $8.8 million may not be justifiable. Nevertheless, staff recommends that HHFDC approve the request based on the following rationale:

1) In the current rising interest-rate environment, HHFDC would be taking undue capital-markets risk should it enter into negotiations with another buyer at this time; and

2) At a purchase price of $130 million and a capital improvement plan budget of $85.1 million, the Buyer's total investment of $215.1 million[7] is substantially higher than the total investment proposed by any other Priority-Listed Offeror. Should HHFDC enter into negotiations with another buyer at this time, a more favorable combined

[7] Excluding acquisition costs, commercial tenant improvements, and financing costs.

purchase price and capital improvement plan budget outcome cannot be expected.

3. Financing Plan

a. With the proposed utilization of the Mezzanine Loan and Seller Deferred Financing, the Buyer's proposed modified financing plan is materially different from the one that was approved by the Board on December 14, 2017. Staff notes that, under the modified plan:

1) Leverage increases by 11 percentage points (from 75% to 86%) of total capitalization; and

2) As it relates to the Seller Deferred Financing, HHFDC incurs repayment risk that it did not contemplate when the RFP award was approved in December 2017.

b. Staff recommends that HHFDC approve the proposed modified financing plan based on the following rationale:

1) The Mezzanine Loan can be viewed as a substitution for the capital stack's previously contemplated external equity. The Buyer's internal equity combined with the Mezzanine Loan constitutes 21% of the transaction's total capitalization, which is four percentage points lower than the 25% equity contribution upon which the RFP award was based.

2) While total leverage of 86% is higher than the 75% originally contemplated, multifamily rental properties are regularly leveraged up to 85% to 90%, especially properties with highly stable cash flows such as those comprising the Portfolio.

3) While HHFDC would incur repayment risk with the contemplated Seller Deferred Financing, staff believes that the risk is acceptable.

- The risk is in part mitigated by the $31.2 million of additional capital investment to be made by the Buyer and serving as security for the loan.

- As compensation for the repayment risk, staff has negotiated an annual interest rate of 300 basis points over the U.S. 10-year Treasury Note yield after a three-year, interest-free construction period. (At the time of this writing, the all-in interest rate was approximately 5.9%.[8])

- Subject to certain conditions which are still being negotiated between staff and the Buyer's representatives, principal repayment will begin in Year 7 of the loan term based on available cash flow

[8] By contrast, HHFDC regularly charges annual interest rates of 1.5% for loans made through its Rental Housing Revolving Fund and Dwelling Unit Revolving Fund ("DURF") programs. Such loans are also subordinate to senior debt and typically have longer terms to maturity.

EXHIBIT A

after the Senior Loan debt service and payment of interest on the Seller Deferred Financing.

4) The 2% annual rent-increase restrictions for Protected Tenants during the first five years of ownership combined with the $31.2 million increase in the capital improvement plan budget present a financing challenge that was unlikely to have been anticipated by the Buyer prior to its due diligence.

4. Closing Period

a. Staff agrees that the increased complexity of the financing plan requires that the closing period be extended to 60 days from the end of the due diligence period expiring on December 17, 2018 (i.e., February 15, 2019).

b. Staff recommends that the Buyer be granted up to two, 30-day extension options should more than 60 days be required to close the transaction. An additional $300,000 deposit would be required upon exercise of each option.[9]

F. Anticipated net proceeds of the sale are summarized in the following table.

Sales price	$ 130,000,000
Bond defeasance (est.)	(72,350,000)
Release of bond reserves (est.)	13,500,000
Seller deferred financing	(26,400,000)
RAP contracts maximum commitment	(23,300,000)
Sales commission	(1,300,000)
Legal expenses (est.)	(750,000)
Repayment of 620 Coral Street DURF advance	(421,000)
Net proceeds of sale at closing	$ 18,979,000
Repayment of seller deferred financing	26,400,000
Net proceeds of sale	**$ 45,379,000**

Additionally, HHFDC expects to earn approximately $4.7 million in interest on the Seller Deferred Financing (assuming repayment of the loan at the end of Year 6.)

[9] Staff recommends that the Executive Director, at his sole and absolute discretion, be authorized to reasonably further extend the closing period in the highly unlikely event that the transaction takes longer than 120 days to close due to circumstances beyond either of HHFDC's or the Buyer's control. (For example, if Atherton Family Foundation's consent to assignment/sublease of the Kamakee Vista ground leases is excessively delayed.)

V. RECOMMENDATION

That the HHFDC Board of Directors take the following actions relating to the previously approved award of Request for Proposals No. 17-010-PPMS Affordable Rental Housing Portfolio Restructuring and Preservation to joint offerors Standard Property Company, Inc. and Stanford Carr Development, LLC:

A. Approve staff's recommended modifications to the RFP award substantially as described herein, including but not limited to:

1. A purchase price of $130 million;

2. A capital improvement plan budget of approximately $85.1 million;

3. A financing plan utilizing:

   a. A Senior Loan (secured by first mortgages on the Buyer's leasehold interests in the Portfolio properties) in the amount of approximately $149.4 million to be provided by Freddie Mac or other institutional lender approved in writing by the Executive Director in his reasonable discretion;

   b. A Mezzanine Loan (secured by first-priority pledges of 100% of the equity interests in the borrower) in the amount of approximately $15.5 million to be provided by Freddie Mac or other institutional lender approved in writing by the Executive Director in his reasonable discretion; and

   c. Seller Deferred Financing (secured by second mortgages on the Buyer's leasehold interests in the Portfolio properties) in an amount not to exceed $26.4 million;

   d. Equity in the amount of approximately $30.6 million provided by persons and entities who are affiliates of the Buyer; and

4. A closing period of 60 days, with two Buyer options to extend the closing date by up to 30 days and subject to reasonable further extension at the Executive Director's sole and absolute discretion.

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action, including but not limited to the negotiation and execution of:

1. An amendment to the Purchase and Sale Agreement;

2. Ground leases;

3. Regulatory agreements;

4. Rental Assistance Program contracts; and

5. Other related transaction documents with the Buyer,

Each substantially on the terms described herein or, as applicable, pursuant to the approved December 14, 2017 For Action (in either case allowing for modifications

EXHIBIT A

as may be deemed reasonable in the Executive Director's sole and absolute discretion), and to undertake any actions related thereto.

Attachments: Exhibit A – For Action dated December 14, 2017
Exhibit B – Buyer's RFP Award Modification Request Letter dated December 11, 2018
Exhibit C – Preliminary CIP Budget
Exhibit D – Summary of Major Variances from the Preliminary CIP Budget
Exhibit E – Draft CIP Budget Summary

Prepared by: Chris Woodard, Real Estate Portfolio Manager

Reviewed by: Janice Takahashi, Chief Planner

Vice Chair Pulmano moved, seconded by Director Mende

That the HHFDC Board of Directors Approve Modifications to Award of for Proposals No. 17-010-PPMS Affordable Rental Housing Portfolio Restructuring and Preservation to Joint Offerors Standard Property Company, Inc. and Stanford Carr Development, LLC as Successful Offeror.

The motion was carried unanimously.

Approved by The Board of Directors at its meeting on DEC 13 2018

Real Estate Portfolio & Compliance Section

Please take necessary action.

EXECUTIVE DIRECTOR

EXHIBIT A